



CITY OF FALLS CHURCH

INTEROFFICE MEMORANDUM

DATE: July 28, 2007

TO: Wyatt Shields, City Manager

FROM: Rick Goff, Economic Development Director

SUBJECT: Report on Status of Community Benefits

PURPOSE OF REPORT

The purpose of this report and accompanying table is to provide you with an update on the scope and status of community benefits proffered voluntarily by the developers of six mixed-use development projects in the City of Falls Church. Each project was approved by City Council through special exception resolution.

SUMMARY

Approximately \$19 million in cash and cash-equivalent proffers has been voluntarily contributed or pledged by the developers of the six mixed-use projects. The largest area of cash contribution is the public school capital fund, where nearly \$3.3 million has been paid or pledged. The largest area of cash-equivalent contribution has been for affordable housing, where an estimated \$9.4 million in proffered value would be achieved. Other areas of significant cash-equivalent commitments are for streetscape improvements (about \$1.1 million) and undergrounding of utilities (about \$3.4 million).

Community benefits have generally been structured by the City to be collected or delivered upon project completion, defined typically by the issuance of a project's first residential certificate of occupancy. To date only the Broadway and Byron have been completed among the six mixed-use developments. Combined, these two projects have produced about \$2.9 million in cash and cash-equivalent community benefits.

Attachment "A" is a table that provides a detailed breakdown of community benefits for each project. They are listed chronologically from top to bottom based on date of City Council approval. The last column in the table, "Estimated cost per square foot of new construction," shows that the City has received progressively larger contributions for community benefits with each new project as measured on a per-square-foot basis.

SOME EXPLANATORY NOTES

Contingent Payments

In the case of the Byron, a unique agreement was approved such that the developer pledged certain voluntary cash contributions contingent upon the audited performance of the project as an investment. At stake under this agreement is potentially \$250,000 in total cash contributions as follows:

- \$50,000 in five annual installments of \$10,000 for the GEORGE bus system;
- \$100,000 for purchase of and/or improvements to the “Hamlet” property; and
- \$100,000 for uses to be determined by mutual agreement between the City and the developer.

The GEORGE and Hamlet contributions are tied to an audit to be conducted no later than 180 days following the issuance of a certificate of occupancy for 95 percent of the residential units. The City was notified in March 2007 that this milestone had been reached, so the audit must occur no later than September 2007. This audit will seek to confirm “minimum return on equity equal to a 20 percent internal rate of return” for the Byron’s equity investors. If this investment threshold is met, the developer is obligated to pay the GEORGE and Hamlet contributions.

Should it be determined that the threshold has not been met, but “the audit provides a reasonable determination that conditions will be met in the future, then the developer will cause a second audit to be performed not later than 180 days following the first [audit] and the project reassessed.” Should a second audit determine achievement of the threshold, then the cash contributions will be collected. The additional \$100,000 cash contribution has been tied to the same audit or audits but would be payable contingent upon “profits of the project exceed[ing] final pro-forma projections by more than 40 percent.”

Subsequent mixed-use projects have not been structured to tie community benefit contributions to project investment performance. Generally agreements have been written to require cash contributions no later than 30 days following the issuance of the first residential certificate of occupancy.

Streetscape and Undergrounding of Utilities

The construction of streetscape improvements and the undergrounding of utilities is a standard area of negotiation between the City and the developers of mixed use projects. A City policy to pursue streetscape improvements along W. Broad Street was approved by Council resolution on August 18, 1987. That policy referenced the undergrounding of utilities as part of the streetscape improvement process.

However, the City Code does not mandate streetscape or utility undergrounding so the cash-equivalent expense of undertaking these improvements is considered a proffered

community benefit. There has been at least one instance where a property owner seeking City approval for a small, by-right commercial development project on W. Broad Street refused to pay for streetscape improvements and the City could not require compliance with its policy as a condition of project approval.

The city engineer reports that streetscape improvements consistent with City design standards for W. Broad Street cost approximately \$600 per linear foot of street frontage. Utility undergrounding costs at least \$1 million per block, depending upon the scope of the work required, also as reported by the city engineer.

Affordable Dwelling Units

The overall achievement of 5.5 percent affordable dwelling units (ADUs), plus cash totaling \$200,000 for five of the six projects, is reflected in the table. The developer of the Read Building committed to provide nine “teacher workforce units.” This commitment has been separated out from the ADU total because the rental structure and family income qualifications for those units are higher than the city’s affordable housing program standards.

The cash-equivalent ADU calculation for Pearson Square was derived using the assumption that the units would be sold as condos. The owner of the project is in the process of seeking approval from the City to rent the units, although they would remain as condos under a single new owner. The ADU calculation will be revised to reflect the cash-equivalent value of the units as rentals once better information is available on the rental structure of both the ADU and market rate units. There is a strong possibility, though, that the ADUs will once again be available for sale by the owner when the condo market recovers.

Falls Church Mixed Use Development Projects: <i>Community Benefits Summary</i>																	
Cash Proffers								Cash Equivalent Proffers									
Project & Address	Developer	Traffic and Transp. Improve-ments	GEORGE	Public School Capital Fund	Expand-ed Utility Capacity	Parks and Other	Potential Additional Cash Tied to Audited ROI	SUBTOTAL CASH PROFFERS	ADUs and/or Cash Proffered	Total Cash Value of Housing Proffers	Street-scape (lf = linear ft.)	Utility Under-grounding	"Green" Features	Other	ESTIMATED TOTAL CASH OR CASH EQUIV. CONTRIB.	Estimated Contrib. Per Housing Unit	Estimated Contrib. Per SF of New Const.
"The Broadway" 502 W. Broad	Waterford	\$50,000	\$0	\$0	N/A	Storm sewer relocation: \$20,000	N/A	\$70,000	4 (5%)	Approx. \$900,000	300 lf x \$600 = \$180,000	\$122,180	N/A	N/A	\$1,272,180	\$15,902 (80 condos)	\$5.80 (188,329 sf)
"The Byron" 513 W. Broad	NOVA Habitat	\$50,000 + bus shelter	\$50,000* tied to audit	\$447,762	N/A	Hamlet contribution: \$100,000* (tied to audit)	\$100,000* (uses TBD)	>\$497,762 ----- \$797,762* (potential)	4 (4.4%) + \$50,000	\$1,050,000	210 lf x \$600 = \$126,000	N/A	N/A	N/A	≥\$1,673,762	\$18,597 (90 condos)	\$10.91 (153,422 sf)
"The Spectrum" 444 W. Broad	Waterford	\$50,000 + bus shelter	\$50,000 in return for passes	\$936,132	N/A	Public easement granted for pocket park	N/A	\$1,036,132	8 (4.2%) + \$150,000	Approx. \$2,550,000	255 lf x \$600 = \$153,000	\$1.6 million for entire "400" block	Green roof	N/A	>\$5,339,132	\$28,249 (189 condos)	\$14.63 (365,000 sf)
"Pearson Square" 500 S. Maple	Atlantic Realty & Carr Enterprises	\$75,000 + \$3,500 toward bus shelter	\$25,000 in return for passes	\$1,111,980	N/A	Tinner Hill Foundation: \$25,000	N/A	\$1,240,480	15 (6.5%)	Approx. \$3.5 million	645 lf x \$450 = \$249,750	>\$1 million	N/A	Reduced rent for Arts Space (\$688,000)	\$6,678,230	\$29,036 (230 condos)	\$15.39 (434,000 sf)
"Read Building" 402 W. Broad	Young Group	\$5,000	\$5,000	\$107,100	N/A	None	N/A	\$117,100	9 Teacher Workforce Units	\$432,000 over 20 years	150 lf x \$600 = \$90,000	N/A	Green roof & LID techniques	N/A	>\$639,100	\$24,581 (26 apts.)	\$18.08 (35,350 sf)
"Northgate" 472 Washington Ave.	Hekemian	≤\$50,000 inc. post-devel. study	\$50,000	\$687,372	N/A	None	N/A	\$787,372	7 (6.7%)	\$1,006,830 over 15 years	555 lf x \$600 = \$333,000	≥\$650,000	≤\$400,000 green roof & LEED certif.	VIP Program: \$1,500 per participant	>\$3,177,202	\$30,259 (105 apts.)	\$19.73 (161,000 sf)
TOTALS		\$283,500	≥\$130,000	\$3,290,346	None to Date	≥\$45,000	≥\$0	≥\$3,699,346	38/694 5.5% (TWUs not inc.) + \$200,000	Approx. \$9.4 million	\$1,131,750 (Estimate)	Approx. \$3.4 million	Approx. \$400,000	>\$688,000	Approx. \$18.8 million	\$26,111 per unit for 720 units	\$14.06 avg. for 1,337,101 sf

City standard expectations: landscaping in buffer areas; traffic studies; 800 MHZ Radio.

* \$250,000 in potential cash contributions to City are subject to audit of Byron return on equity or profit.

Revised, 070207